

**Tennessee Board of Regents
East Tennessee State University**

**For the Year Ended
June 30, 1998**

Arthur A. Hayes, Jr., CPA

Director

Charles K. Bridges, CPA

Assistant Director

Debra D. Bloomingburg, CPA

Audit Manager

Gerry C. Boaz

In-Charge Auditor

Jennifer Johnson

Rafael Marrero-Ruiz

Melinda Mitchell

Alicia Reed

Staff Auditors

Erica V. Smith, CPA

Technical Analyst

Jane Russ

Editor

February 10, 1999

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217

and

Dr. Paul E. Stanton Jr., President
East Tennessee State University
Campus Box 70734
Johnson City, Tennessee 37614

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University, for the year ended June 30, 1998. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
98/109

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
East Tennessee State University
For the Year Ended June 30, 1998

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

**Audit Report
Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 1998**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
PRIOR AUDIT FINDINGS		3
RESULTS OF THE AUDIT		3
Audit Conclusions		3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		4
FINANCIAL STATEMENTS		
Independent Auditor's Report		6
Balance Sheets	A	8
Statement of Changes in Fund Balances for the Year Ended June 30, 1998	B	10
Statement of Changes in Fund Balances for the Year Ended June 30, 1997	C	11

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1998	D	12
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1997	E	14
Notes to the Financial Statements		16

**Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 1998**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

East Tennessee State University was established by an act of the General Assembly in 1909 as East Tennessee State Normal School. In 1924, the name was changed to East Tennessee State Teachers College; in 1930, to State Teachers College, Johnson City; and in 1943 to East Tennessee State College. In 1963, by an act of the General Assembly, East Tennessee College was granted university status, and its name was changed to East Tennessee State University.

The university has nine colleges and schools: College of Arts and Sciences, College of Business, College of Education, College of Public and Allied Health, School of Graduate Studies, School of Continuing Studies, College of Medicine, College of Applied Science and Technology, and College of Nursing. East Tennessee State University is officially authorized to grant 13 undergraduate and 16 graduate degrees.

ORGANIZATION

The governance of East Tennessee State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. East Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

October 23, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 23, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Honorable W. R. Snodgrass
October 23, 1998
Page Two

We did, however, note certain other less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ms

Independent Auditor's Report

October 23, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, East Tennessee State University, as of June 30, 1998, and June 30, 1997, and the changes in fund balances and the

The Honorable W. R. Snodgrass
October 23, 1998
Page Two

current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

As discussed in Notes 15 and 16 to the financial statements, the university changed the threshold for capitalizing equipment and implemented GASB 16, *Accounting for Compensated Absences*, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 1998, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ms

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1998, WITH COMPARATIVE TOTALS FOR JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997	LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 2 and 3)	\$ 13,808,202.73	\$ 12,232,458.33	Liabilities:		
Accounts receivable (net of allowance of \$2,249,694.75 at June 30, 1998, and \$1,971,886.40 at June 30, 1997)	4,716,298.03	3,460,774.56	Accounts payable	\$ 2,546,037.18	\$ 2,019,717.08
Inventories	909,259.12	775,753.34	Accrued liabilities	2,894,484.42	2,699,238.84
Prepaid expenses and deferred charges	416,128.81	442,013.16	Unemployment compensation provision	1,001.36	4,335.22
Other assets	10,851.00	11,776.00	Student deposits	20,224.35	23,834.14
			Deferred revenue	4,297,294.83	4,101,610.50
			Compensated absences	5,283,262.80	4,884,129.93
			Total liabilities	15,042,304.94	13,732,865.71
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	4,824,518.57	3,497,892.30
			Allocation for encumbrances	1,029,699.27	1,068,929.88
			Allocation for designated state appropriations	208,830.39	271,990.34
			Discretionary allocations:		
			Allocation for subsequent budget	2,614,700.00	2,406,394.33
			Allocation for athletics	-	62,628.34
			Allocation for university school	108,486.04	106,607.68
			Allocation for unexpected contracts	469,805.62	442,428.48
			Allocation for utility savings	215,771.56	215,771.56
			Allocation for student activity fees	69,517.00	-
			Allocation for technology access fee	96,492.91	-
			Allocation for research improvement	14,244.97	-
			Allocation for compensated absences	(5,283,262.80)	(4,884,129.93)
			Unallocated	449,631.22	1,396.70
			Total fund balances	4,818,434.75	3,189,909.68
Total general	19,860,739.69	16,922,775.39	Total general	19,860,739.69	16,922,775.39
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	992,923.51	852,036.76	Liabilities:		
Accounts receivable (net of allowance of \$99,021.86 at June 30, 1998, and \$19,541.62 at June 30, 1997)	234,184.50	127,258.78	Accounts payable	101,971.73	18,697.43
Inventories	1,541,979.09	1,340,818.02	Accrued liabilities	21,729.06	25,193.87
			Student deposits	199,452.98	200,677.89
			Deferred revenue	140,775.00	128,858.20
			Compensated absences	114,082.67	102,024.22
			Total liabilities	578,011.44	475,451.61
			Fund balances:		
			Nondiscretionary allocation:		
			Allocation for working capital	1,805,613.59	1,495,496.80
			Discretionary allocations:		
			Allocation for contingency	487,486.29	451,189.37
			Allocation for compensated absences	(114,082.67)	(102,024.22)
			Unallocated	12,058.45	-
			Total fund balances	2,191,075.66	1,844,661.95
Total auxiliary enterprises	2,769,087.10	2,320,113.56	Total auxiliary enterprises	2,769,087.10	2,320,113.56
Total unrestricted	22,629,826.79	19,242,888.95	Total unrestricted	22,629,826.79	19,242,888.95
Restricted:			Restricted:		
Cash and cash equivalents (Notes 2 and 3)	759,129.51	778,764.17	Liabilities:		
Accounts and grants receivable	3,330,876.13	2,922,181.67	Accounts payable	128,802.10	1,713.73
Due from endowment and similar funds	124.93	115.76	Accrued liabilities	121,433.11	71.25
Prepaid expenses and deferred charges	9,056.03	-	Compensated absences	705,707.43	737,164.13
			Total liabilities	955,942.64	738,949.11
			Fund balance	3,143,243.96	2,962,112.49
Total restricted	4,099,186.60	3,701,061.60	Total restricted	4,099,186.60	3,701,061.60
Total current funds	\$ 26,729,013.39	\$ 22,943,950.55	Total current funds	\$ 26,729,013.39	\$ 22,943,950.55
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 430,418.76	\$ 605,097.85	Fund balance:		
Notes receivable (net of allowance of \$1,237,148.18 at June 30, 1998, and \$1,339,123.29 at June 30, 1997)	7,078,044.93	6,459,746.87	U.S. government grants refundable	\$ 6,227,374.30	\$ 5,726,862.71
Accrued interest receivable	236,375.17	225,532.99	University funds:		
			Restricted - matching	951,818.25	820,619.74
			Restricted - other	565,646.31	742,895.26
Total loan funds	\$ 7,744,838.86	\$ 7,290,377.71	Total loan funds	\$ 7,744,838.86	\$ 7,290,377.71

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 1998, WITH COMPARATIVE TOTALS FOR JUNE 30, 1997

ASSETS	June 30, 1998	June 30, 1997	LIABILITIES AND FUND BALANCES	June 30, 1998	June 30, 1997
Endowment and similar funds:			Endowment and similar funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 242,931.79	\$ 253,226.33	Liabilities:		
Investments (Notes 3 and 4)	2,019,843.36	2,019,843.36	Due to restricted current funds	\$ 124.93	\$ 115.76
Accrued interest receivable	17,683.70	10,723.98			
			Fund balance:		
			Endowment	38,341.05	42,134.77
			Quasi-endowment - unrestricted	2,241,992.87	2,241,543.14
			Total fund balances	2,280,333.92	2,283,677.91
Total endowment and similar funds	\$ 2,280,458.85	\$ 2,283,793.67	Total endowment and similar funds	\$ 2,280,458.85	\$ 2,283,793.67
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	\$ 2,409,251.53	\$ 3,118,331.56	Liabilities:		
LGIP deposit - capital projects (Note 4)	272,629.70	131,213.18	Accounts payable	\$ 15,581.06	\$ 80,417.96
Accounts receivable	3,250.18	140,499.24			
			Fund balance:		
			Unrestricted (Note 5)	2,669,550.35	3,309,626.02
Total unexpended plant	2,685,131.41	3,390,043.98	Total unexpended plant	2,685,131.41	3,390,043.98
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	14,734,574.67	14,082,908.13	Liabilities:		
Accounts receivable	95,000.00	-	Accounts payable	11,716.79	107,271.65
			Other liabilities	1,682.10	-
			Total liabilities	13,398.89	107,271.65
			Fund balance:		
			Unrestricted (Note 5)	14,816,175.78	13,975,636.48
Total renewals and replacements	14,829,574.67	14,082,908.13	Total renewals and replacements	14,829,574.67	14,082,908.13
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	1,446,653.09	1,364,609.62	Liabilities:		
Accounts receivable	130,459.86	130,459.86	Accrued interest payable	165,669.82	175,617.07
Accrued interest receivable	13,294.76	15,452.89	Accrued liabilities	1,327.84	-
			Total liabilities	166,997.66	175,617.07
			Fund balance:		
			Unrestricted	1,423,410.05	1,334,905.30
Total retirement of indebtedness	1,590,407.71	1,510,522.37	Total retirement of indebtedness	1,590,407.71	1,510,522.37
Investment in plant:			Investment in plant:		
Land	4,462,848.58	4,462,848.58	Liabilities:		
Buildings	89,742,796.01	89,401,625.59	Loans payable (Note 6)	2,666,688.37	2,732,252.07
Improvements other than buildings	9,868,583.18	9,868,583.18	TSSBA indebtedness (Note 6)	7,150,718.64	7,764,484.44
Equipment	42,029,654.41	43,301,890.73			
Library holdings	45,341,885.06	45,408,994.17	Total liabilities	9,817,407.01	10,496,736.51
Construction in progress	21,905,810.86	7,368,185.67			
			Fund balance:		
			Net investment in plant	203,534,171.09	189,315,391.41
Total investment in plant	213,351,578.10	199,812,127.92	Total investment in plant	213,351,578.10	199,812,127.92
Total plant funds	\$ 232,456,691.89	\$ 218,795,602.40	Total plant funds	\$ 232,456,691.89	\$ 218,795,602.40
Agency funds:			Agency funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 398,802.00	\$ 581,636.18	Accounts payable	\$ 373.00	\$ -
Investments (Notes 3 and 4)	8,705.95	8,705.95	Deposits held in custody for others	407,134.95	590,342.13
Total agency funds	\$ 407,507.95	\$ 590,342.13	Total agency funds	\$ 407,507.95	\$ 590,342.13

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 117,641,512.62	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	10,114,298.12	-	-	-	-	-	-	-
Tuition and fees	-	89,852.00	-	-	-	-	-	-
State appropriations	-	445,300.00	-	-	32,605,631.27	-	-	-
Federal grants and contracts	-	12,078,479.45	384,262.00	-	-	-	126,181.00	-
State grants and contracts	-	8,307,077.51	-	-	-	-	-	-
Private gifts, grants, and contracts	-	18,371,828.24	15,010.31	-	53,383.18	122,000.00	-	442,036.31
Investment income	-	4,187.70	8,936.15	734.84	89,576.09	746,076.40	223,898.01	-
Equipment use charges	-	-	-	-	-	235,200.00	-	-
Interest on loans receivable	-	-	150,791.06	-	-	-	-	-
Endowment income	-	757,345.93	-	-	-	-	-	-
Reduction in doubtful accounts	-	-	19,377.17	-	-	-	-	-
Tennessee State School Bond Authority	-	-	-	-	496,688.71	-	-	-
Student debt service fees (Note 6)	-	-	-	-	-	-	727,589.91	-
Expended for plant facilities (including \$3,873,564.04 charged to current fund expenditures)	-	-	-	-	-	-	-	19,940,157.24
Retirement of indebtedness	-	-	-	-	-	-	-	1,176,826.42
Other (Note 10)	-	-	72,415.75	-	-	-	260,919.73	-
Total revenues and other additions	127,755,810.74	40,054,070.83	650,792.44	734.84	33,245,279.25	1,103,276.40	1,338,588.65	21,559,019.97
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	114,644,845.14	38,630,147.11	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,694,111.71	28,634.61	-	-	-	-	-	-
Indirect costs recovered	-	944,195.16	-	-	-	-	-	-
Refunded to grantors	-	86,994.49	48,236.45	-	-	-	-	-
Loan cancellations and write-offs	-	-	192,155.06	-	-	-	-	-
Administrative and collection costs	-	-	85,487.51	-	-	-	12,593.20	-
Expended for plant facilities	-	-	-	-	14,948,058.36	1,118,534.84	-	-
Expended for noncapital items	-	-	-	-	19,367,470.78	589,878.50	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,176,826.42	-
Interest on indebtedness	-	-	-	-	-	-	672,595.83	-
Disposal of plant facilities	-	-	-	-	-	-	-	2,817,008.90
Increase in indebtedness	-	-	-	-	-	-	-	497,496.92
Library holdings revaluation	-	-	-	-	-	-	-	766,518.17
Other	-	13.76	7,539.60	4,078.83	-	-	-	-
Total expenditures and other deductions	123,338,956.85	39,689,985.13	333,418.62	4,078.83	34,315,529.14	1,708,413.34	1,862,015.45	4,081,023.99
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(824,840.75)	-	-	-	-	-	824,840.75	-
Loan fund matching grant	(128,087.33)	-	128,087.33	-	-	-	-	-
Nonmandatory:								
Unrestricted current funds	173,954.23	(173,954.23)	-	-	-	-	-	-
Loan funds	-	(9,000.00)	9,000.00	-	-	-	-	-
Unexpended plant	(50,000.00)	-	-	-	445,104.27	(182,195.07)	(212,909.20)	-
Renewals and replacements	(1,612,941.26)	-	-	-	(14,930.05)	1,627,871.31	-	-
Total transfers	(2,441,915.11)	(182,954.23)	137,087.33	-	430,174.22	1,445,676.24	611,931.55	-
Net increase (decrease) for the year	1,974,938.78	181,131.47	454,461.15	(3,343.99)	(640,075.67)	840,539.30	88,504.75	17,477,995.98
Fund balance at beginning of year	5,034,571.63	2,962,112.49	7,290,377.71	2,283,677.91	3,309,626.02	13,975,636.48	1,334,905.30	189,315,391.41
Cumulative effect of change in accounting principle (Note 15)	-	-	-	-	-	-	-	(3,259,216.30)
Fund balance at end of year	\$ 7,009,510.41	\$ 3,143,243.96	\$ 7,744,838.86	\$ 2,280,333.92	\$ 2,669,550.35	\$ 14,816,175.78	\$ 1,423,410.05	\$ 203,534,171.09

The notes to the financial statements are an integral part of this statement.

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds				Plant funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 114,670,074.28	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	9,458,114.64	-	-	-	-	-	-	-
Tuition and fees	-	89,488.00	-	-	-	-	-	-
State appropriations	-	455,434.00	-	-	6,692,357.72	-	-	-
Federal grants and contracts	-	10,632,425.30	223,569.00	-	-	-	126,181.00	-
State grants and contracts	-	5,867,414.41	-	-	-	-	-	-
Private gifts, grants, and contracts	-	13,953,357.60	28,000.78	350.00	200,000.00	-	-	1,054,673.62
Investment income	-	2,592.20	20,280.47	-	39,679.27	714,783.20	186,971.20	-
Interest on loans receivable	-	-	166,792.97	-	-	-	-	-
Endowment income	-	777,360.30	-	-	-	-	-	-
Tennessee State School Bond Authority	-	-	-	-	50,757.60	-	-	-
Student debt service fees (Note 6)	-	-	-	-	-	-	710,005.16	-
Library holding revaluation	-	-	-	-	-	-	-	19,390,030.74
Expended for plant facilities (including \$3,818,854.64 charged to current fund expenditures)	-	-	-	-	-	-	-	12,400,419.00
Retirement of indebtedness	-	-	-	-	-	-	-	1,165,999.68
Other (Note 10)	-	-	71,324.76	-	108,075.00	-	260,919.72	79,305.07
Total revenues and other additions	124,128,188.92	31,778,071.81	509,967.98	350.00	7,090,869.59	714,783.20	1,284,077.08	34,090,428.11
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	112,932,341.62	31,086,171.94	-	-	-	-	-	-
Auxiliary enterprise expenditures	8,026,086.42	25,032.49	-	-	-	-	-	-
Indirect costs recovered	-	652,870.97	-	-	-	-	-	-
Refunded to grantors	-	159,898.40	2,989.85	-	-	-	-	-
Loan cancellations and write offs	-	-	98,870.30	-	-	-	-	-
Administrative and collection costs	-	-	125,191.74	-	-	-	8,874.99	-
Provision for doubtful accounts	-	-	203,053.49	-	-	-	-	-
Expended for plant facilities	-	-	-	-	7,472,488.36	1,109,076.00	-	-
Expended for noncapital items	-	-	-	-	433,510.18	641,027.86	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,165,999.68	-
Interest on indebtedness	-	-	-	-	-	-	800,120.66	-
Disposal of plant facilities	-	-	-	-	-	-	-	3,022,413.00
Increase in indebtedness	-	-	-	-	-	-	-	71,795.14
Other	-	-	332.20	3,745.92	-	-	-	-
Total expenditures and other deductions	120,958,428.04	31,923,973.80	430,437.58	3,745.92	7,905,998.54	1,750,103.86	1,974,995.33	3,094,208.14
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)								
Mandatory:								
Principal and interest	(957,744.97)	-	-	-	-	-	957,744.97	-
Loan fund matching grant	(74,523.00)	-	74,523.00	-	-	-	-	-
Nonmandatory:								
Unrestricted current funds	246,105.91	(246,105.91)	-	-	-	-	-	-
Loan funds	-	(15,000.00)	15,000.00	-	-	-	-	-
Unexpended plant	(50,000.00)	(18,315.59)	-	-	1,518,562.59	(1,305,247.00)	(145,000.00)	-
Renewals and replacements	(1,462,663.85)	-	-	-	(332,496.97)	2,320,160.82	(525,000.00)	-
Total transfers	(2,298,825.91)	(279,421.50)	89,523.00	-	1,186,065.62	1,014,913.82	287,744.97	-
Net increase (decrease) for the year	870,934.97	(425,323.49)	169,053.40	(3,395.92)	370,936.67	(20,406.84)	(403,173.28)	30,996,219.97
Fund balance at beginning of year	4,163,636.66	3,387,435.98	7,121,324.31	2,287,073.83	2,938,689.35	13,996,043.32	1,738,078.58	158,319,171.44
Fund balance at end of year	\$ 5,034,571.63	\$ 2,962,112.49	\$ 7,290,377.71	\$ 2,283,677.91	\$ 3,309,626.02	\$ 13,975,636.48	\$ 1,334,905.30	\$ 189,315,391.41

The notes to the financial statements are an integral part of this statement.

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1998

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 28,158,112.42	\$ 62,372.93	\$ 28,220,485.35
State appropriations	67,202,100.00	449,527.02	67,651,627.02
Federal grants and contracts	617,700.39	11,489,932.99	12,107,633.38
State grants and contracts	155,008.33	8,287,295.37	8,442,303.70
Local gifts, grants, and contracts	1,733,529.88	-	1,733,529.88
Private gifts, grants, and contracts	221,275.74	17,590,668.83	17,811,944.57
Endowment income	141,686.10	750,349.97	892,036.07
Sales and services of educational activities	17,251,405.71	-	17,251,405.71
Sales and services of auxiliary enterprises	10,114,298.12	28,634.61	10,142,932.73
Interest income	905,885.98	-	905,885.98
Other sources	1,254,808.07	-	1,254,808.07
Total current revenues	<u>127,755,810.74</u>	<u>38,658,781.72</u>	<u>166,414,592.46</u>
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	71,689,904.78	14,952,153.12	86,642,057.90
Research	1,628,103.36	2,708,124.83	4,336,228.19
Public service	993,237.79	2,081,879.09	3,075,116.88
Academic support	11,477,421.36	3,485,810.10	14,963,231.46
Student services	9,384,581.19	1,602,727.91	10,987,309.10
Institutional support	10,056,056.48	5,663,948.82	15,720,005.30
Operation and maintenance of plant	8,256,961.83	3,528.73	8,260,490.56
Scholarships and fellowships	1,158,578.35	8,131,974.51	9,290,552.86
Total educational and general expenditures	<u>114,644,845.14</u>	<u>38,630,147.11</u>	<u>153,274,992.25</u>
Educational and general transfers:			
Mandatory transfers for:			
Loan fund matching grant	128,087.33	-	128,087.33
Principal and interest	240,000.00	-	240,000.00
Nonmandatory transfers for:			
Unexpended plant funds	50,000.00	-	50,000.00
Renewals and replacements	1,124,009.31	-	1,124,009.31
Total educational and general expenditures and transfers	<u>116,186,941.78</u>	<u>38,630,147.11</u>	<u>154,817,088.89</u>
Auxiliary enterprises:			
Expenditures	8,694,111.71	28,634.61	8,722,746.32
Mandatory transfer for:			
Principal and interest	584,840.75	-	584,840.75
Nonmandatory transfer for:			
Renewals and replacements	488,931.95	-	488,931.95
Total auxiliary enterprises	<u>9,767,884.41</u>	<u>28,634.61</u>	<u>9,796,519.02</u>
Total expenditures and transfers	<u>125,954,826.19</u>	<u>38,658,781.72</u>	<u>164,613,607.91</u>

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 25,622,483.22	\$ 71,116.62	\$ 25,693,599.84
State appropriations	68,468,800.00	469,040.42	68,937,840.42
Federal grants and contracts	509,794.39	10,240,732.61	10,750,527.00
State grants and contracts	149,039.00	5,505,492.42	5,654,531.42
Local gifts, grants, and contracts	1,601,169.60	-	1,601,169.60
Private gifts, grants, and contracts	167,336.01	13,995,899.53	14,163,235.54
Endowment income	134,299.88	803,890.34	938,190.22
Sales and services of educational activities	16,141,112.54	-	16,141,112.54
Sales and services of auxiliary enterprises	9,458,114.64	25,032.49	9,483,147.13
Interest income	934,277.92	-	934,277.92
Other sources	941,761.72	-	941,761.72
Total current revenues	<u>124,128,188.92</u>	<u>31,111,204.43</u>	<u>155,239,393.35</u>
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	70,141,981.31	12,256,603.19	82,398,584.50
Research	1,866,983.62	1,952,376.30	3,819,359.92
Public service	1,089,417.16	2,152,583.19	3,242,000.35
Academic support	11,443,899.21	3,431,987.50	14,875,886.71
Student services	9,227,125.70	1,320,726.90	10,547,852.60
Institutional support	9,652,049.83	2,528,231.00	12,180,280.83
Operation and maintenance of plant	8,472,044.85	-	8,472,044.85
Scholarships and fellowships	1,038,839.94	7,443,663.86	8,482,503.80
Total educational and general expenditures	<u>112,932,341.62</u>	<u>31,086,171.94</u>	<u>144,018,513.56</u>
Educational and general transfers:			
Mandatory transfers for:			
Loan fund matching grant	74,523.00	-	74,523.00
Principal and interest	230,000.00	-	230,000.00
Nonmandatory transfers for:			
Unexpended plant funds	50,000.00	-	50,000.00
Renewals and replacements	577,000.00	-	577,000.00
Total educational and general expenditures and transfers	<u>113,863,864.62</u>	<u>31,086,171.94</u>	<u>144,950,036.56</u>
Auxiliary enterprises:			
Expenditures	8,026,086.42	25,032.49	8,051,118.91
Mandatory transfer for:			
Principal and interest	727,744.97	-	727,744.97
Nonmandatory transfer for:			
Renewals and replacements	885,663.85	-	885,663.85
Total auxiliary enterprises	<u>9,639,495.24</u>	<u>25,032.49</u>	<u>9,664,527.73</u>
Total expenditures and transfers	<u>123,503,359.86</u>	<u>31,111,204.43</u>	<u>154,614,564.29</u>

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Tuition and fees	\$ 25,622,483.22	\$ 71,116.62	\$ 25,693,599.84
State appropriations	68,468,800.00	469,040.42	68,937,840.42
Federal grants and contracts	509,794.39	10,240,732.61	10,750,527.00
State grants and contracts	149,039.00	5,505,492.42	5,654,531.42
Local gifts, grants, and contracts	1,601,169.60	-	1,601,169.60
Private gifts, grants, and contracts	167,336.01	13,995,899.53	14,163,235.54
Endowment income	134,299.88	803,890.34	938,190.22
Sales and services of educational activities	16,141,112.54	-	16,141,112.54
Sales and services of auxiliary enterprises	9,458,114.64	25,032.49	9,483,147.13
Interest income	934,277.92	-	934,277.92
Other sources	941,761.72	-	941,761.72
Total current revenues	<u>124,128,188.92</u>	<u>31,111,204.43</u>	<u>155,239,393.35</u>
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	70,141,981.31	12,256,603.19	82,398,584.50
Research	1,866,983.62	1,952,376.30	3,819,359.92
Public service	1,089,417.16	2,152,583.19	3,242,000.35
Academic support	11,443,899.21	3,431,987.50	14,875,886.71
Student services	9,227,125.70	1,320,726.90	10,547,852.60
Institutional support	9,652,049.83	2,528,231.00	12,180,280.83
Operation and maintenance of plant	8,472,044.85	-	8,472,044.85
Scholarships and fellowships	1,038,839.94	7,443,663.86	8,482,503.80
Total educational and general expenditures	<u>112,932,341.62</u>	<u>31,086,171.94</u>	<u>144,018,513.56</u>
Educational and general transfers:			
Mandatory transfers for:			
Loan fund matching grant	74,523.00	-	74,523.00
Principal and interest	230,000.00	-	230,000.00
Nonmandatory transfers for:			
Unexpended plant funds	50,000.00	-	50,000.00
Renewals and replacements	577,000.00	-	577,000.00
Total educational and general expenditures and transfers	<u>113,863,864.62</u>	<u>31,086,171.94</u>	<u>144,950,036.56</u>
Auxiliary enterprises:			
Expenditures	8,026,086.42	25,032.49	8,051,118.91
Mandatory transfer for:			
Principal and interest	727,744.97	-	727,744.97
Nonmandatory transfer for:			
Renewals and replacements	885,663.85	-	885,663.85
Total auxiliary enterprises	<u>9,639,495.24</u>	<u>25,032.49</u>	<u>9,664,527.73</u>
Total expenditures and transfers	<u>123,503,359.86</u>	<u>31,111,204.43</u>	<u>154,614,564.29</u>

TENNESSEE STATE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>OTHER TRANSFERS AND ADDITIONS</u>			
<u>(DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	666,867.38	666,867.38
Refunded to grantors	-	(159,898.40)	(159,898.40)
Indirect costs recovered	-	(652,870.97)	(652,870.97)
Nonmandatory transfer to unrestricted current funds	-	(246,105.91)	(246,105.91)
Nonmandatory transfer to loan funds	-	(15,000.00)	(15,000.00)
Nonmandatory transfer to unexpended plant funds	-	(18,315.59)	(18,315.59)
Nonmandatory transfer from restricted current funds	246,105.91	-	246,105.91
Net increase (decrease) in fund balance	\$ <u>870,934.97</u>	\$ <u>(425,323.49)</u>	\$ <u>445,611.48</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements
June 30, 1998, and June 30, 1997**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements of the university have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements of the university have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings, (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement, and (3) nonmandatory transfers, for all other cases.

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include student housing, university bookstore, food services, post office, and certain contracted activities. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

LGIP Deposit–Capital Projects

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Inventories

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Interest during construction has not been capitalized. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1998, cash and cash equivalents consisted of \$14,306,361.99 in bank accounts, \$62,000 of petty cash on hand, and \$20,854,525.60 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1997, cash and cash equivalents consisted of \$4,058,798.61 in bank accounts, \$60,000 of petty cash on hand, \$1,100,000 of certificates of deposit, and \$28,650,270.32 in the State of Tennessee Local Government Investment Pool.

NOTE 3. DEPOSITS

The bank balances of certain deposits including accrued interest as of the balance sheet dates were entirely insured or collateralized with securities held by the university's agent in the university's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

The university's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

NOTE 4. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers'

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Investments are valued at fair value.

The university's investments at June 30, 1998, and June 30, 1997, consisted of certificates of deposit with original maturities greater than three months. These have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

Funds on deposit with the State Treasurer in unexpended plant consisted of loan proceeds that had not been expended.

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1998, amounted to \$93,292.12 for unexpended plant and \$520,432.78 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1997, amounted to \$358,561.83 for unexpended plant and \$958,575.32 for renewals and replacements.

NOTE 6. LOANS PAYABLE, BONDS PAYABLE, AND TSSBA INDEBTEDNESS

The Tennessee Board of Regents, on behalf of the university, borrowed funds for the construction of the East Tennessee State University Clinical Education Facility. The loan bears a simple interest rate of 7.15%, a face amount of \$3,000,000, a minimum annual debt service of \$260,919.72, and a due date of January 1, 2017. The balance owed by the university was \$2,666,688.37 at June 30, 1998, and \$2,732,252.07 at June 30, 1997.

Bond issues, with interest rates ranging from 4.1% to 6.7% for Tennessee State School Bond Authority bonds (\$8,272,905.74), are due serially to 2011 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the balance sheet is shown net of assets held by the authority in the debt service reserve. The

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

reserve amount was \$1,669,633.41 at June 30, 1998, and \$1,669,633.41 at June 30, 1997. See Note 15 regarding the change in accounting policy and the 1997 restatement.

The university's debt service requirements to maturity for all bonds payable at June 30, 1998, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 1,226,899.43	\$ 631,809.10	\$ 1,858,708.53
2000	1,189,756.78	583,891.19	1,773,647.97
2001	1,072,794.40	510,696.80	1,583,491.20
2002	1,130,243.13	453,269.33	1,583,512.46
2003	811,187.66	392,867.98	1,204,055.64
2004-2018	5,508,712.71	1,981,689.03	7,490,401.74
	<u>\$10,939,594.11</u>	<u>\$4,554,223.43</u>	<u>\$15,493,817.54</u>

Interim and short-term financing for various projects was secured through the Tennessee State School Bond Authority from a Bond Anticipation Notes (BANs) Program through November 30, 1997. Under the BANs Program, the final maturity of the notes was March 1, 1998; however, the notes were retired December 1, 1997, and redeemed with proceeds of the commercial paper program. The notes bore interest at a variable rate, which was paid monthly.

The Tennessee State School Bond Authority authorized the issuance of commercial paper on November 18, 1997, to finance the costs of various capital projects. The commercial paper also refinanced certain outstanding bond anticipation note indebtedness that the authority had previously issued. At June 30, 1998, \$ 547,446.31 had been issued for projects at the university.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund equal to \$4.46 per thousand drawn in the tax-exempt program and \$6.16 per thousand drawn in the taxable program. A contribution is required each time an additional draw is made from the program. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

during the month. The commercial paper bears interest at a variable rate, which is paid monthly. The maturity of the paper may not exceed 270 days, and the maximum interest rate may not exceed 12%. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt.

NOTE 7. PENSION PLANS

A. Defined Benefit Plans

Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 3.65% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 1998, 1997, and 1996, were \$1,026,504.77, \$2,053,002.04, and \$1,772,760.71. Contributions met the requirements for each year.

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans for the year ended June 30, 1998, was \$4,433,100.85 and for the year ended June 30, 1997, was \$4,274,671.68. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 9. CHAIRS OF EXCELLENCE

The university had \$19,241,308.23 on deposit at June 30, 1998, and \$17,160,888.54 on deposit at June 30, 1997, with the State Treasurer for the university's Chairs of

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 10. OTHER ADDITIONS

The following amounts are included as “other additions” on the Statements of Changes in Fund Balances:

	<u>Year Ended</u> <u>June 30, 1998</u>	<u>Year Ended</u> <u>June 30, 1997</u>
Other Addition		
<u>Retirement of Indebtedness</u>		
Rent proceeds from the Medical Education Assistance Corporation	\$260,919.73	\$260,919.72

NOTE 11. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state’s officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state’s general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1998, the scheduled coverage for the university was \$291,444,700 for buildings and \$58,660,900 for contents. At June 30, 1997, the scheduled coverage was \$288,426,800 for buildings and \$82,856,500 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers’ compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university’s expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$30,272,264.66 at June 30, 1998, and \$28,413,992.48 at June 30, 1997.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$192,719.26 and for personal property were \$14,647.69 for the year ended June 30, 1998. Comparative amounts for the year ended June 30, 1997, were \$148,224.14 and \$10,542. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1998, outstanding commitments under construction contracts totaled \$2,773,960.57 for the new central library, infrastructure upgrade, Memorial Center roof repair, mechanical upgrade, Wilson-Wallis Hall reroof,

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

and renovation of the Student Learning Center, of which \$2,759,905.87 will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 13. AFFILIATED ENTITIES NOT INCLUDED

The university is the sole beneficiary of the Medical Education Assistance Corporation (MEAC), the East Tennessee State University Foundation, and the Northeast Tennessee Area Health Education Center (AHEC). These private, nonprofit corporations are controlled by boards independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in MEAC's most recently audited financial report, at June 30, 1998, the corporation's assets totaled \$10,002,796, liabilities were \$3,344,953, and the fund balance amounted to \$6,657,843. As reported in the foundation's most recently audited financial report, at June 30, 1998, the foundation's assets totaled \$18,710,867, liabilities were \$254,517, and the fund balance amounted to \$18,456,350. As reported in AHEC's most recently audited financial report, at September 30, 1997, the corporation's assets totaled \$40,775, liabilities were \$40,775, and the fund balance amounted to zero.

NOTE 14. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1997, the value of library books was increased from \$20 per volume to \$48 per volume, and the standardized values for other library holdings were also increased/decreased by various amounts. As a result of the revaluation, library books and other library holdings increased by \$16,960,030.57 and \$2,430,000.17, and net investment in plant, under the investment in plant fund subgroup, increased by \$19,390,030.74 at June 30, 1997.

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

NOTE 15. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 1998, the threshold for capitalizing equipment increased from \$500 to \$1,000. As a result of the change, equipment decreased by \$3,259,216.30.

NOTE 16. PRIOR-YEAR RESTATEMENT

The university implemented GASB Statement 16, *Accounting for Compensated Absences*. As a result, prior-period amounts were restated as noted below:

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Unrestricted general	Compensated absences	\$ 4,884,129.93
Unrestricted general	Allocation for compensated absences	\$(4,884,129.93)
Unrestricted auxiliary	Compensated absences	\$ 102,024.22
Unrestricted auxiliary	Allocation for compensated absences	\$ (102,024.22)
Restricted	Accounts and grants receivable	\$ 737,164.13
Restricted	Compensated absences	\$ 737,164.13
Exhibit C		
Unrestricted	Unrestricted current fund revenues	\$ 90,005.43
Unrestricted	Educational and general expenditures	\$ 237,317.75
Unrestricted	Auxiliary enterprise expenditures	\$ (3,035.40)
Unrestricted	Beginning fund balance	\$(4,841,877.23)
Exhibit E		
Unrestricted	Federal grants and contracts	\$ 62,701.75
Unrestricted	State grants and contracts	\$ 9,483.34
Unrestricted	Private gifts, grants, and contracts	\$ 17,820.34
Unrestricted	Instruction	\$ 129,057.86
Unrestricted	Research	\$ 82,606.36
Unrestricted	Public service	\$ 4,271.24
Unrestricted	Academic support	\$ 33,946.00
<u>Fund</u>	<u>Account</u>	<u>Amount</u>

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

Unrestricted	Student services	\$ (45,141.84)
Unrestricted	Institutional support	\$ (2,266.00)
Unrestricted	Operation and maintenance of plant	\$ 34,844.13
Unrestricted	Auxiliary enterprises	\$ (3,035.40)

During the year ended June 30, 1998, the Tennessee State School Bond Authority informed the university that the authority had not in past years appropriately recorded a college savers bond issue. In order to implement the appropriate reporting, prior-period amounts were restated as noted below:

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Retirement of indebtedness	Accrued interest payable	\$ (16,065.51)
Retirement of indebtedness	Unrestricted fund balance	\$ 16,065.51
Investment in plant	Bonds payable	\$ 209,774.10
Investment in plant	Net investment in plant	\$(209,774.10)
Exhibit C		
Investment in plant	Beginning fund balance	\$(209,774.10)

The Tennessee State School Bond Authority maintains a debt service reserve for its bonds. This amount had previously been shown in the university's retirement of indebtedness fund as deposits with trustee. During the year ended June 30, 1998, there was a change in accounting policy whereby it was decided that the reserve should be netted against the related bonds payable and the net amount shown in investment in plant as Tennessee State School Bond Authority indebtedness. In addition, the commercial paper payable and the notes payable under the BANs program were to be included in the TSSBA indebtedness. As a result of the change in accounting policy, prior-period amounts were restated as follows:

**Tennessee Board of Regents
East Tennessee State University
Notes to the Financial Statements (Cont.)
June 30, 1998, and June 30, 1997**

<u>Fund</u>	<u>Account</u>	<u>Amount</u>
Exhibit A		
Retirement of indebtedness	Deposits with trustee	\$ (1,669,633.41)
Retirement of indebtedness	Restricted fund balance	\$ (1,669,633.41)
Investment in plant	Notes payable	\$ (71,795.14)
Investment in plant	Bonds payable	\$ (9,362,322.71)
Investment in plant	Tennessee State School Bond Authority indebtedness	\$ 7,764,484.44
Investment in plant	Net investment in plant	\$ 1,669,633.41
Exhibit C		
Retirement of indebtedness	Beginning fund balance	\$(1,669,633.41)
Investment in plant	Beginning fund balance	\$ 1,669,633.41